Public Works and Government Services Canada
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PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

QUARTERLY FINANCIAL REPORT

For the quarter ended September 30, 2014

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1. Introduction

This Quarterly Financial Report (QFR) should be read in conjunction with the *Main Estimates*, *Supplementary Estimates*, and *Canada's Economic Action Plan* (*Budgets 2014*, *2013* and *2012*). It has been prepared by management as required under section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by Treasury Board Accounting Standard 1.3. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Alignment Architecture

Public Works and Government Services Canada (PWGSC) plays an important role in the daily operations of the Government of Canada. The Department is its principal treasurer, accountant, central purchasing agent, linguistic authority, and real property manager. The Department's vision is to excel in government operations, and its mission is to deliver high-quality services and programs that meet the needs of federal organizations and ensure sound stewardship on behalf of Canadians.

The Department, founded in 1841, was instrumental in the building of our nation's canals, roads and bridges, the Houses of Parliament, post offices and federal buildings across the country. Today, PWGSC has evolved into a sophisticated operational arm of government that employs approximately 12,100 permanent employees working in locations across Canada, with its headquarters in the National Capital Area. PWGSC:

- Injects more than $14 billion annually into the Canadian economy through government procurement for 140 federal departments and agencies;
- Handles over $2.2 trillion in cash flow transactions through the Receiver General function as treasurer;
- Issues more than 14 million federal pay and pension payments;
- Provides accommodation to parliamentarians and more than 272,200 public servants in 1,733 locations across Canada;
- Manages a Crown-owned property portfolio with a market value of $7.3 billion, including 19 engineering assets such as bridges and dams;
- Provides translation and interpretation services, annually, for more than 1,700 parliamentary sittings and parliamentary committee meetings, and manages translation for more than one million pages of text on behalf of other federal organizations; and
- Images and digitizes more than 23 million pages, annually, for federal government departments and agencies.

Further details on PWGSC's authority, mandate and programs may be found in the *2014-15 Report on Plans and Priorities*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting also known as modified cash accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying *Statement of Authorities* compares PWGSC's spending authorities granted by Parliament to those used by the Department. Information in the Statement of Authorities is consistent with that in the *Main Estimates*.

The authority of Parliament is required before monies can be spent by the government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation granting statutory spending authority for specific purposes.

PWGSC uses the accrual method of accounting to prepare and present its annual Consolidated Departmental Financial Statements (DFS) that are published in the *Departmental Performance Report*. However, the spending authorities voted by Parliament remain on a modified cash basis of accounting.

The main difference between the QFR and the DFS is the timing of when revenues and expenses are recognized. The QFR reports revenues only when the money is received and expenses only when the money is paid out. The DFS reports revenues when they are earned and expenses when they are incurred. In the latter case, revenues are recorded even if cash has not been received and expenses are incurred even if cash has not yet been paid out.

1.3 PWGSC's Financial Structure

PWGSC provides services to many government departments, agencies and Crown corporations through a variety of funding mechanisms. This includes budgetary authorities that are comprised of voted and statutory authorities, as well as non-budgetary authorities. The voted budgetary authorities include Operating Expenditures, Vote-Netted Revenues and Capital Expenditures, while the statutory authorities are mainly comprised of Revolving Funds, Employee Benefit Plans and Payments in Lieu of Taxes (PILT). The non-budgetary authorities consist primarily of the Seized Property Working Capital Account (see description below).

PWGSC's complex financial structure may result in significant fluctuations in authorities on a quarterly basis which are due to timing differences that are resolved by year end. These are summarized as follows:

- For the most part, PWGSC delivers its services on a cost-recovery basis, generating revenues via Revolving Fund ("the Funds") organizations and programs within the Operating Vote. These organizations and programs are mainly designed to provide services to other government organizations, and are expected to recover the cost of their operations through revenues. However, the costs incurred by the Funds are usually disbursed prior to invoicing the client, which generally occurs upon completion of a project or after services are rendered, and thus revenues may be collected in a subsequent quarter.

- PWGSC manages a variety of real property projects that progress through phases from planning to funding and from procurement to construction. Historical trends have shown that expenditures against these projects are not incurred evenly throughout the year; thus, quarter-to-quarter fluctuations are normal.

- PILT issued by PWGSC are funded through a statutory vote and paid on behalf of other participating federal departments. Payments are subsequently recovered from the participating departments and are recorded as statutory grants in the Public Accounts of Canada. Timing fluctuations can occur between the payments and recoveries.

- PWGSC also manages seized property for the Government of Canada pursuant to the *Seized Property Management Act*. The financial management of this activity is undertaken through the non-budgetary Seized Property Working Capital Account. Charged to this Account are expenditures and advances made to maintain and manage any seized or restrained property. PWGSC recovers its costs from this Account once the property owner loses the right to the property and it is disposed of.

2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) Results

2.1 Significant Changes to Authorities

When compared to the same quarter of the previous year, PWGSC's **Authorities Available for Use increased by $151.0 million** (2013-14: $2,619.6 million; 2014-15: $2,770.6 million) as reflected in the *Statement of Authorities* (Table 1, page 10). Major reasons for the increase are outlined below:

Year Over Year Variances in Authorities Available for Use

(in millions of dollars)	Operating	Capital	Budgetary Statutory Authorities	Total Variances
Carry Forward	42.0	64.0		**106.0**
Engineering Assets	(7.4)	91.0		**83.6**
Rehabilitation of the Parliamentary Precinct	1.2	67.1		**68.3**
Transformation of Pay Administration	3.1	47.8	2.7	**53.6**
Carling Campus		26.6		**26.6**
Advertising Program	5.0			**5.0**
Controlled Goods	3.8		0.4	**4.2**
Grande-Allée Armoury		2.8		**2.8**
Revolving Funds			(19.6)	**(19.6)**
Terrasses de la Chaudière		(49.9)		**(49.9)**
Deficit Reduction Action Plan	(57.2)			**(57.2)**
Sydney Tar Ponds and Coke Ovens Remediation	(71.2)			**(71.2)**
Other	3.4	1.5	(6.1)	**(1.2)**
CUMULATIVE VARIANCE IN AUTHORITIES AVAILABLE FOR USE	**(77.3)**	**250.9**	**(22.6)**	**151.0**

Groupings can change between quarters due to materiality of initiatives.
Amounts may not balance with other public documents due to rounding.

The **net increase of $151.0 million** can be explained by:

Carry Forward of Unused Funds from Previous Fiscal Year – increase of $106.0 million

Treasury Board Secretariat allows departments to transfer a portion of unused funds from one fiscal year to the following year. In 2014-15, a carry forward of $106.0 million was received in the second quarter, while in 2013-14, PWGSC's carry forward of $89.0 million was received in the third quarter. Amounts carried forward are primarily for projects that are continuing into 2014-15.

Engineering Assets – increase of $83.6 million

PWGSC is the custodian of 19 engineering assets including seven bridge crossings, four dam complexes, and eight specialized assets which constitute critical public infrastructure providing significant benefits to the communities and regions served across Canada. The increase in 2014-15 is mainly related to planned funding for the planning, design and implementation of capital projects, such as the Macdonald-Cartier Bridge, the Timiskaming Dam Complex, the Latchford Dam and the Des Allumettes Bridge.

Rehabilitation of the Parliamentary Precinct **– increase of $68.3 million**

This planned funding is to continue the implementation of the Long Term Vision and Plan (LTVP), to ensure preservation of the Parliament Buildings as heritage assets and national symbols in accordance with the approved five-year program of work which began in 2010-11. LTVP projects continue to be developed on time and on budget.

Transformation of Pay Administration **– increase of $53.6 million**

The seven-year program of work under the Transformation of Pay Administration Initiative has two main components: the Consolidation of Pay Services Project, and the Pay Modernization Project. The planned funding increase is for the Pay Modernization Project which will replace the Government of Canada's 40 year-old pay system with a modern, commercial off-the-shelf pay system.

Carling Campus **– increase of $26.6 million**

This funding is for the design and construction of necessary base building upgrades, special purpose space and information technology at the Carling Campus for the consolidation of the National Defence Headquarters. This consolidation will fulfill a Government commitment to bring 8,500 Department of National Defence staff and members of the Canadian Armed Forces located in the National Capital Area together in significantly fewer areas to improve efficiency and effectiveness.

Advertising Program **– increase of $5.0 million**

This funding is to contract the services of an advertising agency to develop creative material and media plans, and to purchase media on the internet through the Government of Canada's Agency of Record. This will enable PWGSC to develop internet (digital) advertising campaigns, on behalf of government departments and agencies.

Controlled Goods **– increase of $4.2 million**

This planned funding is to enhance the Controlled Goods Program through a set of security and business process improvement measures as a transition to a fee-based program.

Grande-Allée Armoury **– increase of $2.8 million**

This funding is to continue the planning for the rehabilitation and reconstruction of the Grande-Allée Armoury in Quebec City, which was damaged by fire in 2008. The reconstruction of the Grande-Allée Armoury represents an investment of approximately $104.3 million under Canada's Economic Action Plan.

Revolving Funds **– decrease of $19.6 million**

Revolving Funds provide, on a cost recovery basis, services to other government departments and agencies, as well as provincial and territorial governments. The funding is required due to timing differences between when expenditures are made and when they are recovered. In 2014-15, PWGSC's Revolving Funds (Real Property Services, Translation Bureau and Optional Services) anticipate lower cash flow requirements.

Terrasses de la Chaudière **– decrease of $49.9 million**

This decrease is due to the completion of the purchase of Les Terrasses de la Chaudière complex in 2013-14.

Deficit Reduction Action Plan **– decrease of $57.2 million**

In accordance with Budget 2012, PWGSC achieved savings through the following initiatives:

- Space recapture and space modernization;
- Leveraging technology; streamlining internal departmental operations; and improving efficiency in government operations; and
- An increase in direct deposit rate for payments issued by the Receiver General on behalf of the Government of Canada.

Sydney Tar Ponds and Coke Ovens Remediation – decrease of $71.2 million

This decrease is related to the completion in 2013-14 of the land remediation for the Sydney Tar Ponds and Coke Ovens Remediation project.

Other – decrease of $1.2 million

This net decrease of $1.2 million is the result of funding variances in miscellaneous projects and activities.

2.2 Significant Changes to Year-to-Date Net Expenditures

As presented in the *Departmental Budgetary Expenditures by Standard Object* (Table 2, page 11), the **Total Net Budgetary Expenditures have decreased by $42.9 million** when compared to the same quarter of the previous year (2013-14: $1,452.3 million; 2014-15: $1,409.4 million).

Overall, total spending at the end of the second quarter represents 51% of annual planned expenditures for 2014-15, which compares to the second quarter of 2013-14 at 55%.

The proportion of actual expenditures in comparison to planned expenditures is consistent with the previous year, in each major expenditure category, with the exception of Acquisition of Land, Buildings and Works. In this category, 77% of the planned expenditures were spent as at the end of the second quarter of 2013-14, whereas only 22% has been spent at the end of the second quarter of this year. The variance is mainly due to the purchase of Les Terrasses de la Chaudière during 2013-14, which augmented year over year spending.

Year Over Year Variances in Net Expenditures (presented by Standard Object)

(in millions of dollars)	2014-15 Year To Date used at quarter end	2013-14 Year To Date used at quarter end	Year Over Year Variance
Personnel	552.1	585.2	**(33.1)**
Repair and Maintenance	303.8	321.1	**(17.3)**
Utilities, Materials and Supplies	80.0	67.4	**12.6**
Acquisition of Land, Buildings and Works	70.6	165.4	**(94.8)**
Transfer Payments	87.4	60.0	**27.4**
Other Subsidies and Payments	294.6	238.2	**56.4**
Other Expenditures	20.9	15.0	**5.9**
Total Net Budgetary Expenditures	**1,409.4**	**1,452.3**	**(42.9)**

The **net decrease of $42.9 million** is mainly attributable to:

Personnel – decrease of $33.1 million

- Severance payments paid out to employees in 2013-14, due to ratified changes to some collective agreements. Eligible employees could opt for a one-time payout of their accumulated severance pay.

Repair and Maintenance – decrease of $17.3 million

- Completion of fit-up work on buildings in Gatineau, Quebec.
- Completion of remediation work at the Esquimalt Graving Dock in Esquimalt, British Columbia.

Utilities, Materials and Supplies – increase of $12.6 million

- Increased business volume in the vaccine program due to changing market conditions.

Acquisition of Land, Buildings and Works – decrease of $94.8 million

- Purchase of Les Terrasses de la Chaudière, a key building complex in Gatineau, Quebec, was completed during 2013-14.
- Reduction in business volume associated with projects for Correctional Service Canada (CSC) to construct and upgrade prisons across Canada (Bill C-25: *Truth in Sentencing Act*).

Transfer Payments – increase of $27.4 million

- Timing differences between when a Payment in Lieu of Taxes (PILT) is issued and when the cost is recovered from other government departments.
- Overall increase in PILT costs due to reassessments of building values, new acquisitions of buildings and increases in tax rates.

Other Subsidies and Payments – increase of $56.4 million

- One-time transition payment to implement salary payment in arrears by the Government of Canada.
- Timing difference related to payments for infrastructure costs. Payments were made in a later quarter last year.

Other Expenditures – increase of $5.9 million

- The increases in other expenditure categories not listed above are due to increased activity in various projects.

3. Risks and Uncertainties

PWGSC integrates risk management principles into business planning, decision-making and organizational processes to minimize negative impacts and maximize opportunities across our diverse range of services and operations. Risk management in PWGSC is carried out in accordance with the TBS Framework for the Management of Risk, the Management Accountability Framework and the PWGSC Policy on Integrated Risk Management.

The following key risks were identified as having a potential financial impact:

- More than half of PWGSC's financial and human resources are directly tied to cost recovered services and activities. In a context of reduced expenditures on the part of client departments and agencies, there is a risk that PWGSC could face unpredictable and reduced business volumes and concomitant reduced resources. In response to this risk PWGSC will adjust to reduced operational demands while maintaining the quality of its services. This includes sustaining rigorous management of revenues, expenditures, forecasting and commitment monitoring and working closely with other departments through the client service network to identify changing requirements and their impacts on the Department.

- There are inherent risks in PWGSC undertaking and delivering complex, transformational and interdepartmental major projects and procurements on time, within the approved budget and according to scope which could ultimately have an impact on the Department's service strategy. In order to address these risks, PWGSC has implemented disciplined investment and project management processes; established service agreements and service standards with clear identification of responsibilities; ensured sound contract management; engaged early with client departments and other stakeholders; and developed the Departmental Integrated Investment Plan (IIP).

4. Significant Changes to Operations, Personnel and Programs

While PWGSC has not seen any significant changes to its operations, personnel and programs in the second quarter of 2014-15, the Department is continually transforming in order to deliver on its savings initiatives. Further information on these initiatives may be found in Section 5.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that are being implemented in order to refocus government and programs, make it easier for Canadians and businesses to deal with their government, and modernize and reduce the back office functions.

PWGSC is committed to achieving Budget 2012 cumulative and ongoing savings of $177.6 million by 2018-19. Savings of $1.5 million were achieved in 2012-13 and $28.1 million in 2013-14. For 2014-15, accumulated savings will increase to $85.3 million; savings will increase to $114.2 million in 2015-16 and $162.0 million in 2016-17. These savings support fiscal responsibility and a more effective use of departmental resources. With these changes, and building on progress made in recent years, PWGSC is transforming to better serve its clients through enhanced efficiency and effectiveness, and sound and robust management.

The cumulative savings initiatives for 2014-15, **totalling $85.3 million**, are in the following areas:

1. **Accommodation and Real Property Services – $37.5 million:** Contributing to a more affordable public service by reducing office accommodation costs. This will be achieved by working with departments to recapture real property office space in response to reduced accommodation needs. PWGSC has also developed new real property space standards consistent with leading practices, resulting in a reduction in the total amount of government office space by approximately 10%.

2. **Internal Services – $22.2 million:** Achieving savings by concentrating on core functions, streamlining processes and eliminating redundancies and overlap, thereby ensuring value for taxpayer money. Savings will be achieved by:

    - Reducing internal overhead and information technology (IT) applications;
    - Integrating the financial and real property management systems;
    - Rationalizing redundant print services;
    - Modernizing IT infrastructure to reduce costs; and
    - Winding down of the Investigations and Litigation Office.

3. **Receiver General for Canada – $17.4 million:** Payments made on behalf of the Government of Canada (e.g. employment insurance payments, income tax refunds, Government of Canada pay and pension cheques) which are currently issued as cheques will, over time, be transitioned to direct deposit. As the initiative relies on the active engagement of other federal departments and agencies, PWGSC has developed targeted plans working with federal departments and agencies, as well as financial institutions and associations.

4. **Linguistic Management and Services - $5.3 million:** The Canadian Language Sector Enhancement Program ended in 2012-13.

5. **Specialized Programs and Services – $2.9 million:** Achieved by optimizing interdepartmental coordination on Greening Government Operations, reducing print publications, and improving efficiency in government operations.

Approved by:

Michelle d'Auray, Deputy Minister
Public Works and Government Services Canada

Gatineau, Canada
November 28, 2014

Alex Lakroni, Chief Financial Officer
Public Works and Government Services Canada

Gatineau, Canada
November 28, 2014

Table 1 - STATEMENT OF AUTHORITIES (unaudited)

For the quarter ended September 30, 2014

(In thousands of dollars)	Fiscal year 2014-15			Fiscal year 2013-14		
	Total available for use for the year ending March 31, 2015 1) 2)	Used during the quarter ended September 30, 2014	Year to date used at quarter end	Total available for use for the year ending March 31, 2014 1) 2)	Used during the quarter ended September 30, 2013	Year to date used at quarter end
Vote 1						
Gross Operating Expenditures	3,130,728	833,942	1,544,553	3,269,323	876,229	1,616,631
Vote-Netted Revenues	(1,302,683)	(340,153)	(605,110)	(1,363,767)	(328,671)	(584,601)
Net Operating Expenditures	**1,828,045**	**493,789**	**939,443**	**1,905,556**	**547,558**	**1,032,030**
Vote 5 - Capital Expenditure	**823,983**	**162,584**	**248,705**	**573,196**	**125,087**	**243,169**
Revolving Fund Authorities						
Real Property Services Revolving Fund						
Gross Expenditures	1,546,128	267,401	485,640	1,613,309	295,084	496,074
Revenues	(1,541,528)	(291,072)	(412,880)	(1,603,309)	(303,220)	(450,113)
Net Expenditures	4,600	(23,671)	72,760	10,000	(8,136)	45,961
Translation Bureau Revolving Fund						
Gross Expenditures	161,570	35,487	72,466	183,268	39,211	80,013
Revenues	(160,230)	(34,983)	(65,293)	(176,246)	(38,571)	(70,033)
Net Expenditures	1,340	504	7,173	7,022	640	9,980
Optional Services Revolving Fund						
Gross Expenditures	139,642	31,007	38,439	143,244	19,550	30,862
Revenues	(139,642)	(29,278)	(40,751)	(134,760)	(13,278)	(27,182)
Net Expenditures	-	1,729	(2,312)	8,484	6,272	3,680
Total of All Revolving Funds						
Gross Expenditures	1,847,340	333,895	596,545	1,939,821	353,845	606,949
Revenues	(1,841,400)	(355,333)	(518,924)	(1,914,315)	(355,069)	(547,328)
Total Revolving Fund Net Expenditures	**5,940**	**(21,438)**	**77,621**	**25,506**	**(1,224)**	**59,621**

Table 1 – STATEMENT OF AUTHORITIES - CONTINUED (unaudited)

For the quarter ended September 30, 2014

(In thousands of dollars)	Fiscal year 2014-15			Fiscal year 2013-14		
	Total available for use for the year ending March 31, 2015 1) 2)	Used during the quarter ended September 30, 2014	Year to date used at quarter end	Total available for use for the year ending March 31, 2014 1) 2)	Used during the quarter ended September 30, 2013	Year to date used at quarter end
Other Budgetary Statutory Authorities						
Contributions to employee benefit plans	112,068	28,017	56,034	114,739	28,685	57,370
Minister of PWGSC salary and motor car allowance	80	20	40	79	26	39
Refunds of amounts credited to revenues in previous years	125	1	125	2	2	2
Spending of proceeds from the disposal of surplus Crown assets	396	55	56	486	4	30
Collection agency fees	6	-	6	-	-	-
Payment in lieu of taxes to municipalities and other taxing authorities [2)]	-	(123,702)	87,395	-	(148,293)	60,016
Total Other Budgetary Statutory Authorities	**112,675**	**(95,609)**	**143,656**	**115,306**	**(119,576)**	**117,457**
Total budgetary authorities	**2,770,643**	**539,326**	**1,409,425**	**2,619,564**	**551,845**	**1,452,277**
Non-Budgetary Authority						
Seized Property Working Capital Account	-	**(2,543)**	**(9,756)**	-	**(7,847)**	**(11,717)**
TOTAL AUTHORITIES	**2,770,643**	**536,783**	**1,399,669**	**2,619,564**	**543,998**	**1,440,560**

Net increase of $151.0 million

Notes:

1) Includes only Authorities available for use and approved by Parliament at quarter-end. Amounts may not balance with other public documents due to rounding

2) Consistent with the presentation in the Main Estimates, Total available for use for the year, for both 2014-15 and 2013-14, under Payment in Lieu of Taxes (PILT), is presented net of planned PILT made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

Table 2 – DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (unaudited)

For the quarter ended September 30, 2014

(in thousands of dollars)	Fiscal year 2014-15			Fiscal year 2013-14		
	Planned expenditures for the year ending March 31, 2015 1) 2)	Expended during the quarter ended September 30, 2014	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2014 1) 2)	Expended during the quarter ended September 30, 2013	Year to date used at quarter end
Expenditures						
Personnel	1,140,880	279,163	552,104	1,145,220	291,888	585,248
Transportation and communications	82,690	19,024	34,383	95,014	20,120	37,526
Information	11,215	2,613	4,335	10,795	2,680	4,481
Professional and special services	1,518,606	316,249	485,501	1,499,007	327,912	496,888
Rentals	977,318	260,593	601,449	999,325	293,132	596,125
Repair and maintenance	1,008,022	178,549	303,779	1,100,803	136,036	321,143
Utilities, materials and supplies	246,516	57,283	79,962	239,597	40,057	67,444
Acquisition of land, buildings and works	320,076	44,574	70,630	216,034	124,346	165,356
Acquisition of machinery and equipment	68,070	14,392	19,343	77,072	9,429	11,739
Transfer payments 2)	-	(123,702)	87,395	-	(148,293)	60,016
Other subsidies and payments	541,332	186,074	294,578	514,779	138,277	238,240
Total gross budgetary expenditures	**5,914,725**	**1,234,812**	**2,533,459**	**5,897,646**	**1,235,584**	**2,584,206**
Less revenues netted against expenditures						
Revolving Funds Revenues	(1,841,399)	(355,333)	(518,924)	(1,914,315)	(355,068)	(547,328)
Vote-Netted Revenues	(1,302,683)	(340,153)	(605,110)	(1,363,767)	(328,671)	(584,601)
Total revenues netted against expenditures	**(3,144,082)**	**(695,486)**	**(1,124,034)**	**(3,278,082)**	**(683,739)**	**(1,131,929)**
TOTAL NET BUDGETARY EXPENDITURES	**2,770,643**	**539,326**	**1,409,425**	**2,619,564**	**551,845**	**1,452,277**

Net decrease of $42.9 million

Notes:

1) Includes only Authorities available for use and approved by Parliament at quarter-end. Amounts may not balance with other public documents due to rounding.

2) Consistent with the presentation in the Main Estimates, Planned expenditures for the year for both 2014-15 and 2013-14, under Transfer Payments, are presented net of planned Payments in Lieu of Taxes (PILT) made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.